PhilEquity Corner

Ego-nomics
By ARSamson

Thomas Schelling, a Nobel laureate in economics, given for his conflict-collaboration game theory, has used the term “egonomics” to refer to self-management in personal matters, weighing costs and benefits as in being rid of addictions. Also, David Marcum a career counselor uses ego differently to promote one’s status and job prospects.

I put a hyphen in “ego-nomics” to differentiate my meaning and refer to the role of ego and personal feelings and needs in determining the price of an item to purchase, including stocks. One way to look at the impact of ego is to observe an art auction. Certain bidders bid irrationally for an artwork because they “have to have that painting at all cost”. Art then is the best metaphor for the ego effect on purchase price which has little relation to the cost of the product (like paint, canvass, artist’s time, and frame).

Thus, ego-nomics stems from “market sentiment”. It is a personal feeling that can go against all rational and analytical indicators if the investor feels strongly that he “has to have a company (and its controlling stocks) at all cost”. Accountants who do not get swept by emotion book the difference between the value of a business and its actual purchase price under the vague category of “goodwill”.

The aggregate version of ego-nomics is captured by “market sentiment”. This is a phrase securities analysts use to explain price fluctuations that statistics and financial ratios alone cannot account for. Investor mood is described as bearish, bullish, or that in-between outlook of wait-and-see (cautious optimism) when people are not paying attention to Bloomberg and discussing a boxing bout instead.

Sometimes, ego-nomics can affect market sentiment, although more often working vice-versa. A market maker like Warren Buffet “betting all-in on the future of the American recovery” with the purchase of railroad stocks, notably the Burlington Northern Santa Fe (BNSF), can make the bears take flight and change market sentiment abruptly.

Like lovers, investors need to be in the mood to buy, sell, or stay in the sidelines to watch soap operas. Mood is not entirely psychological as it is also driven by statistics on growth, inflation, and exchange rate, in addition to insider info, corporate rumors, feng shui, and the weather.

While beheadings in Sulu, unilateral oil price freezes, a foreigner or two (often belonging to religious orders) kidnapped or found stabbed in his mistress’s apartment (not belonging to a religious order) no longer upset anybody’s breakfast, a combination of these isolated events reported in media can form a critical mass of pessimism.

In our local market, ego-nomics reigns. The recent (and still lingering) takeover battles for a public utility trading above the analysts’ valuations of it, based on future cash flows and the real estate boom, have affected not just the target stock but also the shares of the perimeter companies associated with the contesting parties. As in any acquisition, the buyer suffers and the sellers (along with their increasingly de-leveraged companies) go into the green zone.

Some gutsy investors (driven by a variant of ego-nomics) might have shrugged off the October 2008 blues and persistent bearish market sentiment of the global and local market prior to the reduction of the rediscount rate and added liquidity from the world's central banks. Those who bet in January 2009 are up by 63.85% as of last Friday just using the PSE index.

Mood swings in ego-nomics are exhibited in observed patterns.

Panic-buying is a behavior last seen in the rush to stock up on toilet paper by desperate housewives. This alarm springs from the conviction that one is being left behind by the gravy train. The order to the broker is given to buy "at market" to ensure accumulation of a fancied stock, such as the target for an acquisition as the combatants keep score of each other's holdings. This lack of patience leads later to buyer's remorse when the analysts punish the ego-nomic tendencies characterized by Allan Greenspan, referring to the 1990 dot-com bubble (a bad case of egomania and ego-nomics), as "irrational exuberance".

Many readers may stop reading when seeing a phrase like "panic selling". They will feel a pang in the nether regions (where the wallet resides). These unfortunate disciples of Chicken Little dumped all their equity position at a loss when they heard the phrase "sub prime" used in a sentence, without bothering to ask if it was a preposition or an adjective. Because they took a deep loss, they now want to get back on the speeding bull train and exhibit the same anxiety as the short seller trying to cover his position in a rising market. The panic seller seeing the steady rise of the stock she dumped will try to catch the same stock "at market" and become an ego-nomist.

While fixed income securities like bonds and five-year (plus one day) time deposits keep the blood pressure steady and allows one to sleep at night, the switcher from equities after the sub-prime scare does not really stop looking at the PSE website or calling her broker who can be too irritated to take calls. (Why are all these characters female?) She does not really acquire peace and tranquility. Instead, she exhibits a kind of rising panic as the cocktail circuit once again features money talk. She knows she should stay in the sidelines and not invite the braggarts with stock market gains to her parties so she is immune to their siren song. Like Ulysses, she should tie herself to the mast and put wax on her ears when the sirens sing their seductive tunes and lure her to cast herself to the sea. She must resist depression (the psychological and not economic kind).

While emotion, mood, and the last person you talk with play a big part in determining market sentiment, the ego-nomist is at the head of the parade. He is like a presidential candidate who is convinced he has a winning strategy no matter what the survey says—Sir, you should just keep your money and put it in the market.

Ours is a moody economy. It has been said that the Philippines is seldom covered as a business story. Before, we were always a political story of coups and impeachments. Now, we have been relegated to natural disasters and recipients of relief with footages of evacuees and bodies of water. Mature economies like the US, Europe, and China are noted by analysts for their trade and budget deficits, low interest rates that will be retained, and prospects of recovery. These economies are too big to be swayed by ego-nomics. Still, a giant can stride into the floor and buy railroad stocks and start a stampede of bulls.

While some attack foreign funds for their too ready rush to the exits when sentiment turns, we need to welcome them for bringing attention, and funds, into our tiny equity market. Are they beginning to understand our version of ego-nomics? Maybe. The volumes seem to show more money going into (and out of) ego-nomic stocks.

In a small market like ours it is easy to understand ego-nomics. There are only a few egos to watch out for. But they always keep changing. There will definitely be a new set of ego-nomists in 2010.

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